

**ANTELOPE VALLEY AIR QUALITY  
MANAGEMENT DISTRICT**

**COUNTY OF LOS ANGELES  
LANCASTER, CALIFORNIA**

**AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2011**

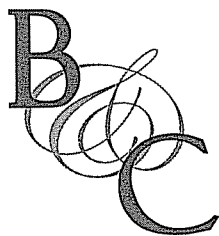
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Accountancy Corporation  
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Palmdale, CA 93551

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT  
JUNE 30, 2011**

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## **FINANCIAL INFORMATION**



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## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Governing Board  
Antelope Valley Air Quality Management District  
Lancaster, California

We have audited the accompanying financial statements of the governmental activities, general fund, and the aggregate remaining fund information of Antelope Valley Air Quality Management District, as of and for the year ended June 30, 2011, which collectively comprise the Antelope Valley Air Quality Management District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Antelope Valley Air Quality Management District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, general fund, and the aggregate remaining fund information of Antelope Valley Air Quality Management District, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2011, on our consideration of the Antelope Valley Air Quality Management District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**BURKEY COX  
EVANS & BRADFORD**

ACCOUNTANCY CORPORATION

Antelope Valley Air Quality Management District

Page 2

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and pages 31 through 34, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Antelope Valley Air Quality Management District's basic financial statements. The required supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The required supplementary information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Burkey & Cox, CPA*  
BURKEY COX EVANS & BRADFORD  
Certified Public Accountants

Palmdale, California  
November 1, 2011

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**Antelope Valley Air Quality Management District**  
Management's Discussion and Analysis  
June 30, 2011

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. Please read this in conjunction with the basic financial statements.

**A. Financial Highlights**

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$3,170,271 (*net assets*). Of this amount \$519,377 (*unrestricted and net assets*) may be used to finance the District's day-to-day operations without constraints established by legal requirements.

The District's governmental funds reported total fund balances of \$2,551,893 for the year; \$219,377 represented the unreserved (*unassigned*) fund balance.

**B. Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements have three components: 1) Government-wide Financial Statements; 2) Fund Financial Statements, and 3) Notes to the Basic Financial Statements. The District's report also includes required supplementary information to the basic financial statements.

In general, the purpose of financial reporting is to provide the external parties that read the financial statements with information that will help them make decisions or draw conclusions about an entity. In order to address the needs of as many parties as reasonably possible, the District, in accordance with required reporting standards, presents government-wide financial statements and fund financial statements.

Government-wide Financial Statements

The focus of government wide financial statements is the overall financial position and activities of the District. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to commercial enterprises or a private-sector business. These financial statements include the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets reports all assets held and liabilities owed by the District on a full accrual basis. The difference between the two is reported as *net assets*. This difference is comparable to the total stockholders' equity presented by a commercial enterprise. Over time, increases or decreases in net assets may serve as a useful indicator or whether the financial position of the District is improving or deteriorating.

Antelope Valley Air Quality Management District  
Management's Discussion and Analysis

The Statement of Activities reports the net cost of the District's activities by program and is prepared on the full accrual basis. Revenues and expenses are recognized as earned and incurred even though they may not have been received or paid in cash.

The focus of the Statement of Activities is the cost of various program activities performed by the District. The statement begins with a column that identifies the cost of each of the District's major programs. Another set of columns identifies the revenues that are specifically related to these activities. The difference between the expenses and the revenues related to specific program activities represents the net cost of benefit of the program activity.

The District's government-wide financial statements are presented on pages 8 to 9 of this report.

Fund Financial Statements

The focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. These financial statements are presented on pages 10 to 13 of this report.

Governmental Funds

The fund financial statements consist of the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance. These are prepared on the modified accrual basis of accounting. The government-wide financial statements are prepared on the full accrual basis.

In general, these financial statements under the modified accrual basis have a short-term emphasis and for the most part, measure and account for cash and receivables collectible within a very short period of time, as reported on the balance sheet. The capital assets such as land and buildings are not reported.

Fund liabilities include amounts that are to be paid within a very short period of time after the end of the fiscal year. The long-term liabilities are not included. The difference between a fund's total assets and total liabilities are not included. The difference between a fund's total assets and total liabilities represents the fund balance. The unreserved portion of the fund balance indicates the amount available to finance future activities.

The operating statements for governmental funds report only those revenues and expenditures that were collected in cash or paid with cash during the current period or very shortly after the end of the year.

The District's Balance Sheet is presented on page 10 and Statement of Revenues, Expenditures, and Changes in Fund Balances is presented on page 12 of this report.

The focus of the fund financial statement is narrower than that of the government-wide financial statements. Since different accounting bases are used to prepare the above statements, reconciliation is required to facilitate the comparison between the fund statements and the government-wide statements. The reconciliation between the total fund balances can be found on page 13 of this report.



Antelope Valley Air Quality Management District  
Management's Discussion and Analysis

The reconciliation of the total changes in fund balances for all governmental funds to the change in net assets can be found on page 11 of this report.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 14 to 30 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the budgetary comparison schedule and budgetary reconciliation.

C. Government-wide Financial Analysis

Our analysis focuses on the net assets and the changes in net assets of the District's governmental activities.

The following schedule is a condensed Statement of Net Assets as of the year ending June 30, 2011, as compared to the prior year.

	<u>6/30/2011</u>	<u>6/30/2010</u>
Total Assets	\$4,029,465	\$4,254,807
Total Liabilities	<u>(859,194)</u>	<u>(1,134,580)</u>
Net Assets	\$3,170,271	3,120,227

At the close of the most recent fiscal year, the District's assets exceeded liabilities by \$3,170,271

Of the District's net assets, (16%) is unrestricted, and unreserved, and may be used to meet the District's ongoing obligations in carrying out day-to-day operations. Capital assets (20%) reflect the District's investment in capital assets used by the District (e.g. land, buildings, equipment, and vehicles). The District uses these capital assets in carrying out its mission of protecting public health while being sensitive to the economic needs of local businesses. Consequently, these assets are not available for future spending. The remaining portion of the District's net assets (64%) is reserved fund balance. These funds are restricted to expenditures for specific purposes.

The following schedule is a condensed statement of Changes in Fund Balances as of fiscal year ending June 30, 2011, as compared to the prior year.

	<u>6/30/2011</u>	<u>6/30/2010</u>
Total Revenues	\$2,961,545	\$2,696,319
Total Expenditures	<u>(3,011,246)</u>	<u>(3,396,991)</u>
Change in Net Assets	(\$49,701)	(700,672)

### Governmental Activities

The objective of the Statement of Activities is to report the full cost of providing government services for the year. The format also permits the reader to ascertain the extent to which each function is either self-financing or draws from the general funds of the District.

The Statement of Activities presents information showing how the District's net assets changed during fiscal year 2010-11. All changes in net assets are reported as soon as the underlying event occurs regardless of the timing of the cash flows.

Fees, grants, state subvention, penalties, and settlements predominantly support the governmental programs of the District. The primary governmental activities of the District include the following: Permit Services and Enforcement, Mobile Source Emission Reduction, Public Education, Air Quality Analysis, and Air Monitoring.

## D. Financial Analysis of the District's Funds

### Governmental Funds

As of the end of the fiscal year, the District's Governmental Funds reported an ending balance of \$2,551,893, a decrease of \$49,701 in comparison with the prior year. Approximately 91% of this fund balance (\$2,332,516) are reserved and restricted for specific purposes. The long-term contractual commitments related to restricted programs involve multiple-year spending. At the end of the fiscal year, the District's unreserved (*assigned*) fund balance was \$219,377, a decrease of \$49,701 in comparison with the prior year. The unreserved fund balance is 100% unrestricted.

## E. Capital Assets

The District's investment in capital assets is for its governmental activities. The book value was \$618,378 (net of accumulated depreciation of \$191,992) as of June 30, 2011. This investment in capital assets includes land, buildings, and improvements, equipment for air monitoring stations, computer and office equipment, video conferencing equipment and District vehicles.

Additional information on the capital assets can be found in the "Notes to Financial Statements," page 26 of this report.

## F. Economic Factors and Next Year's Budget

The District contracts all of its services from the Mojave Desert Air Quality Management District (MDAQMD). Under this contract, the MDAQMD will provide the full time equivalent (FTE) of 8 employees. The FY 2011-12 budget calls for appropriations totaling \$2,396,181 with sufficient funds to pay for those services; this is an increase of 1.82% from FY 2010-11 and includes continuing projects to help streamline government and regulatory functions.

The AVAQMD is a service based agency in which program staff (salaries and benefits) will comprise 78% of the total expenditure budget. Revenues are projected at \$2,210,480, a 2.62% increase over last year's projections.

Antelope Valley Air Quality Management District  
Management's Discussion and Analysis

G. Requests for Information

This financial report is designed to provide a general overview of the District's finances for readers of the financial statements. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Administrative Services, Antelope Valley Air Quality Management District, 43301 Division Street, Suite 206, Lancaster, CA 93535-4649.

## **BASIC FINANCIAL STATEMENTS**

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2011**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Investments	\$ 2,556,494
Receivables (net of allowances for uncollectibles)	854,593
Capital Assets (net of accumulated depreciation):	
Machinery and Equipment	<u>618,378</u>
Total Assets	<u>4,029,465</u>
<b>LIABILITIES</b>	
Accounts Payable and Other Current Liabilities	197,433
Deferred Revenue	<u>661,761</u>
Total Liabilities	<u>859,194</u>
<b>NET ASSETS</b>	
Invested in Capital Assets	618,378
Restricted for Special Programs	2,032,516
Unrestricted	<u>519,377</u>
Total Net Assets	<u><u>\$ 3,170,271</u></u>

The accompanying notes are an integral part of these statements.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<b>PRIMARY GOVERNMENT</b>				
Governmental Activities:				
Public Safety:				
Services and Supplies	\$ 1,994,640	\$ 321,435	\$ 594,670	\$ (1,078,535)
Contributions to Other Participants	916,861	147,752	273,347	(495,762)
Total Governmental Activities	<u>2,911,501</u>	<u>469,187</u>	<u>868,017</u>	<u>(1,574,297)</u>
Total Primary Government	<u>\$ 2,911,501</u>	<u>\$ 469,187</u>	<u>\$ 868,017</u>	<u>(1,574,297)</u>
General Revenues:				
AB 2766 and Other Program Revenues				1,549,251
Unrestricted Investment Earnings				35,074
Miscellaneous				40,016
Total General Revenues				<u>1,624,341</u>
Change in Net Assets				50,044
Net Assets - Beginning of Year				<u>3,120,227</u>
Net Assets - End of Year				<u>\$ 3,170,271</u>

The accompanying notes are an integral part of these statements.

## **FUND FINANCIAL STATEMENTS**



**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2011**

	General Fund	Mobile Emissions Program (AB 2766)	Mobile Emissions Program (AB 923)	Carl Moyer Program	Total Governmental Funds
<b>ASSETS</b>					
Cash and Investments	\$ 551,987	\$ 1,427,939	\$ 440,720	\$ 135,848	\$ 2,556,494
Receivables (net of allowances for uncollectibles)	253,333	2,719	767	597,774	854,593
Due from Other Funds	39,162	60,077	75,096	20,178	194,513
Total Assets	<u>\$ 844,482</u>	<u>\$ 1,490,735</u>	<u>\$ 516,583</u>	<u>\$ 753,800</u>	<u>\$ 3,605,600</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts Payable and Other					
Current Liabilities	\$ 189,933	\$ 7,500	\$ 0	\$ 0	\$ 197,433
Due to Other Funds	135,172	20,179	0	39,162	194,513
Deferred Revenues	0	0	0	661,761	661,761
Total Liabilities	<u>325,105</u>	<u>27,679</u>	<u>0</u>	<u>700,923</u>	<u>1,053,707</u>
<b>FUND BALANCES</b>					
Nonspendable	0	0	0	0	0
Restricted	0	1,463,056	516,583	52,877	2,032,516
Committed	300,000	0	0	0	300,000
Assigned	0	0	0	0	0
Unassigned	219,377	0	0	0	219,377
Total Fund Balances	<u>519,377</u>	<u>1,463,056</u>	<u>516,583</u>	<u>52,877</u>	<u>2,551,893</u>
Total Liabilities and Fund Balances	<u>\$ 844,482</u>	<u>\$ 1,490,735</u>	<u>\$ 516,583</u>	<u>\$ 753,800</u>	<u>\$ 3,605,600</u>

The accompanying notes are an integral part of these statements.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT  
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

Total Fund Balances - Governmental Funds	\$	2,551,893
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Capital assets used or governmental activities are not financial resources and therefore are not reported as assets in Governmental Funds. The cost of the assets is \$810,370 and the accumulated depreciation is \$191,992.		618,378
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All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, the noncurrent portion of capital leases, compensated absences and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. In general, liabilities that mature or come due for payment during the fiscal year are considered to have been made with current available financial resources. Long-term obligations that will be paid from governmental funds are not recognized as a current liability in the fund financial statements when due but rather recognized as an expense when paid.

Long-term liabilities, including all bonds, are not due and payable in the current period and therefore are not reported as liabilities in the funds. The District did not have any long-term liabilities at year end.

None		0
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Total Net Assets - Governmental Activities	\$	3,170,271
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The accompanying notes are an integral part of these statements.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Mobile Emissions Program (AB2766)	Mobile Emissions Program (AB923)	Carl Moyer Program	Total Governmental Funds
<b>REVENUES</b>					
Application and Permit Fees	\$ 460,236	\$ 0	\$ 0	\$ 0	\$ 460,236
AB 2766 and Other Program Revenues	1,549,251	0	0	0	1,549,251
Grants	122,740	0	0	745,277	868,017
Fines	8,951	0	0	0	8,951
Investment Earnings	9,963	19,514	2,768	2,829	35,074
Miscellaneous	40,016	0	0	0	40,016
Total Revenues	<u>2,191,157</u>	<u>19,514</u>	<u>2,768</u>	<u>748,106</u>	<u>2,961,545</u>
<b>EXPENDITURES</b>					
Public Safety:					
Services and Supplies	1,220,676	0	0	754,561	1,975,237
Contributions to Other Participants	0	504,766	412,095	0	916,861
Capital Outlay					
Improvements and Equipment	<u>119,148</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>119,148</u>
Total Expenditures	<u>1,339,824</u>	<u>504,766</u>	<u>412,095</u>	<u>754,561</u>	<u>3,011,246</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>851,333</u>	<u>(485,252)</u>	<u>(409,327)</u>	<u>(6,455)</u>	<u>(49,701)</u>
Other Financing Sources (Uses)					
Operating Transfers In	0	410,553	513,191	0	923,744
Operating Transfers Out	<u>(923,744)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(923,744)</u>
Total Other Financing Sources (Uses)	<u>(923,744)</u>	<u>410,553</u>	<u>513,191</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>(72,411)</u>	<u>(74,699)</u>	<u>103,864</u>	<u>(6,455)</u>	<u>(49,701)</u>
Fund Balance - Beginning of Year	<u>591,788</u>	<u>1,537,755</u>	<u>412,719</u>	<u>59,332</u>	<u>2,601,594</u>
Fund Balance - End of Year	<u>\$ 519,377</u>	<u>\$ 1,463,056</u>	<u>\$ 516,583</u>	<u>\$ 52,877</u>	<u>\$ 2,551,893</u>

The accompanying notes are an integral part of these statements.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

Total Net Change in Fund Balances - Governmental Funds	\$ (49,701)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Fixed Assets Additions	\$	119,148	
Current Year Depreciation		<u>(19,403)</u>	
Total			<u>99,745</u>

Total Change in Net Assets - Governmental Activities	\$ <u>50,044</u>
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The accompanying notes are an integral part of these statements.

## **NOTES TO THE FINANCIAL STATEMENTS**

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The combined financial statements of Antelope Valley Air Quality Management District (the "District") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**A. Reporting Entity**

The District's basic financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District
- the exclusion of the organization would result in misleading or incomplete financial statements

The Antelope Valley Air Quality Management District, for financial purposes, includes all funds relevant to the operations of the District. The Board of Directors has governance responsibilities over all activities related to the District. The District receives funding from local, county, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, since board members are elected officials appointed by their respective jurisdictions, or by an elected official, or by the sitting members of the governing board (Health and Safety Code 41310), and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units or potential component units.

**B. New Accounting Pronouncements**

GASB Statement No. 61 - The Financial Reporting Entity; Omnibus – amendment of GASB No. 14 and No. 34 – statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as components units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Furthermore, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the “substantively the same governing body” criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset.

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged.

GASB Statement No. 62 - Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements - is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations.
2. Accounting Principles Board Opinions.
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the “FASB and AICPA pronouncements.”

This Statement also supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting, thereby eliminating the election provided in paragraph 7 of that Statement for enterprise funds and business-type activities to apply post-November 30, 1989 FASB Statement and Interpretations that do not conflict with or contradict GASB pronouncements. However, entities can continue to apply, as other accounting literature, post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements, including this Statement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basis of Presentation, Basis of Accounting**

Government-wide Financial Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. Governmental activities generally are financed through fees, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all fees, are presented as general revenues.

Fund Financial Statements: Fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Mobile Emissions Program (AB2766) was established by the District to account for the retention of funds allocated for the support of the District's mobile emissions grant program.

Mobile Emissions Program (AB923) was established by the District to account for the retention of funds allocated for the support of the District's mobile emissions grant program.

Carl Moyer Program was established by the District to account for revenues received pursuant to the Carl Moyer Memorial Air Quality Standards Attainment Program. Expenditures are restricted to providing incentive for participating entities to undertake reduced-emission heavy-duty engine projects.

**D. Measurement Focus, Basis of Accounting**

Government-wide Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include fees, grants, entitlements, and donations. On an accrual basis, revenue from fees is recognized in the fiscal year for which the fees are charged. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.



**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Revenues from local sources consist primarily of permit fees and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, and then unrestricted resources.

**E. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-Wide Financial Statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

**Revenues – Exchange and Non-exchange Transactions:**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include fees, grants, and entitlements. Under the accrual basis, revenue from fees is recognized in the fiscal year for which the fees are charged. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used of the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Deferred Revenue:**

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

**Expenses/Expenditures:**

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as they are needed.

**F. Budgets and Budgetary Accounting**

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to the beginning of the fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain comments from those subject to District fees.
3. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the Governing Board.

Once a budget is approved, it can be amended only by approval of a majority of the members of the Governing Board. As required by law, such amendments are made before the fact, reflected in the official minutes of the Governing Board and not made after fiscal year end. During the year, the budget was amended as necessary. Budget for the General Fund is adopted on a basis consistent with generally accepted accounting principles (GAAP). Budget amounts are as originally adopted; individual amendments were not material in relation to the original budget.

**G. Assets, Liabilities, and Equity**

**1. Deposits and Investments**

The District adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," as of July 1, 2004. GASB Statement 40 requires governmental entities to assess categories of risk associated with their deposits and investments and disclose these risks.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national and international exchange are valued at the last reported sales price at current exchange rates. (See Note 2 for further discussion).

**2. Inventories and Prepaid Expenditures**

Inventories of supplies were not significant as of June 30, 2011.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**3. Capital Assets**

In the Government-Wide Financial Statements, fixed assets are accounted for as Capital Assets. All assets are reported at cost or estimated historical cost, except for donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$1,000 is used.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings	20 - 50 years
Building and Improvements	20 years
Vehicles	5 years
Equipment	15 - 20 years
Computer Equipment	3 - 15 years

4. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

Accounts receivable are deemed by management to be fully collectible at June 30, 2011, and therefore no allowance for doubtful accounts has been established.

5. Compensated Absences

During the year ended June 30, 2011, the District had no employees; hence no amounts have been provided for accumulated unpaid vacation and sick leave.

6. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures of expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfer in and transfers out are netted and presented as a single "transfers" line on the government-wide statement of activities.

H. Use of Estimates

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses, as appropriate, during the reporting period. Actual results could differ from those estimates.

I. Fund Equity

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The following is a description of the reserves and designations used by the District.

- a. Reserved for Special Programs – Representing funds received and accumulated for specific grant program expenditures to be incurred at a future date.
- b. Reserved by District– Represents funds resolved for future contingencies that may occur that are not anticipated or known as of June 30, 2011.

**J. Fund Balance Reserves and Designations**

Non-spendable Fund Balance The portion of fund balance reflecting assets not in spendable form, either because they will never convert to cash (such as prepaid Items) or must remain intact pursuant to legal or contractual requirements (such as the principal of a permanent endowment).

Non-spendable Revolving Cash The portion of fund balance reflecting the value of the revolving cash account.

Non-spendable Stores The portion of fund balance reflecting the value of stores.

Non-spendable Prepaid Items The portion of fund balance reflecting the value of prepaid items.

All Other Non-spendable Assets The portion of fund balance reflecting the value of non-spendable assets not specified above. For example, this object issued for the legal reserve required for Certificates of Participation, the long-term portion of notes receivable, or the principle of a permanent endowment.

Reserve for Encumbrances (Budgetary account) An account set aside to provide for encumbrances. Generally, encumbrances are closed at the end of the fiscal year, and new purchase orders or contracts are opened for the subsequent year. However, the District should disclose in a footnote to the financial statements significant encumbrances that are included in the subsequent year's budget.

**Restricted Fund Balance**

Restricted Balance The portion of fund balance representing resources subject to externally imposed and legally enforceable constraints imposed either by external resource providers, e.g., grantors or creditors, or by law through constitutional provisions or enabling legislation. Examples include unspent balances or restricted state and federal grants, and unspent proceeds of general obligation bonds

Committed Fund Balance The portion of fund balance representing resources whose use is constrained by limitations self-imposed by the District through formal action of its highest level of decision-making authority. The constraints can be modified or removed only through the same process by which they were imposed. The action imposing the constraint must be made by the end of the reporting period. The actual amounts may be determined at a later date, prior to the issuance of the financial statements.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Stabilization Arrangements The portion of fund balance set aside pursuant to a stabilization arrangement more formal than the reserve for economic uncertainties recommended by the Criteria and Standards for fiscal solvency or other minimum fund balance policy. The level of constraint must meet the criteria to be reported as committed, and the circumstances in which the resources are used must be specific and non-routine. The formal action imposing the constraint should identify and describe in sufficient detail the circumstances in which the amounts may be used. Minimum fund balance policies and other stabilizing arrangements that do not match the criteria to be reported as committed are reported as unassigned.

Other Commitments The portion of fund balance representing commitments other than stabilization arrangements.

Assigned Fund Balance The portion of fund balance representing resources that are intended to be used for specific purposes but for which the constraints do not meet the criteria to be reported as restricted or committed. Intent may be established either by the District's highest level of decision-making or by a designated body or official. Constraints giving rise to assigned fund balance may be imposed at any time before the financial statements are issued, and may be modified or removed by a process less formal than is required for committed fund balance. In governmental fund types other than the general fund, this is the residual fund balance classification.

Other Assignments The position of fund balances representing assignment.

Unassigned Fund Balance The portion of fund balance not classified as non-spendable, restated, committed, or assigned.

Reserve for Economic Uncertainties The position of unassigned fund balance set aside pursuant to a minimum fund balance policy. This amount includes the reserve recommended by the Criteria and Standards for fiscal solvency, as well as additional reserve established pursuant to local policy.

Unassigned/Unappropriated In the general fund, residual fund balance in excess of amount reported in the non-spendable, restricted, committed or assigned fund balance classifications and net of Reserve for Economic Uncertainties.

In all governmental funds including the general fund, the excess of non-spendable, restricted, and committed fund balance over total fund balance (deficits). Assigned amounts must be reduced or estimated if a deficit exists.

For budgetary purposes, this account represents the excess of estimated revenue and estimated other financial sources over appropriations and estimated other financing uses.

**K. Implementation of New Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe the constraints imposed upon the use of the resources reported in the governmental funds. The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type and permanent fund type are clarified by the provisions in this Statement. The requirements of this Statement are effective for financial statements periods beginning after June 15, 2010, and have been implemented on this financial statement.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 2 – CASH AND INVESTMENTS**

**General**

The District has adopted Governmental Accounting Standards Board Statement 31 (GASB 31) which requires investments of governmental agencies to be reported at fair value. However, investment pools, such as a state or county treasury, may report the value of short-term investments with remaining maturities of less than 90 days at amortized costs. The majority of the County Treasury investments have a remaining maturity of less than 90 days. In addition, GASB 31 does not apply to immaterial cost/value differences.

**Unrestricted and Restricted**

Cash and investments consisted of the following at June 30, 2011:

	<u>Unrestricted</u>	<u>Restricted</u>		
	General	Combined Mobile		
	Fund	Emissions	Carl	Total
	Fund	Programs	Moyer	
Pooled Investments	\$ 551,987	\$ 1,868,659	\$ 135,848	\$ 2,556,494
Total	<u>\$ 551,987</u>	<u>\$ 1,868,659</u>	<u>\$ 135,848</u>	<u>\$ 2,556,494</u>

All cash and time deposits are entirely insured or collateralized. The California Government Code requires state banks to secure District deposits by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the District's deposits. The District may waive collateral requirements for deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC).

The surplus funds of the District may be invested in any of the approved investments contained in the California Government Code Sections 53600 et seq., limited further by the investment policy adopted by the District.

**Investments Authorized by the Entity's Investment Policy**

The District's investment policy authorizes investment in the local government investment pool administered by Los Angeles County. The District's investment policy does not contain any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

Additionally, the District may invest idle or surplus funds in accordance with California Government Code Section 53601. The table below identifies the investment types that are authorized for the District by the California Government Code. The table also identifies certain provisions of the California Government Code that addresses interest rate risk, credit rate risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	None	None
Commercial Paper	180 days	None	None
Negotiable Certificates of Deposits	5 years	None	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	1 year	None	None
Medium-Term Notes	5 years	None	None
Mutual Funds	N/A	None	None
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Funds (LAIF)	N/A	None	None

**Investments Authorized by Debt Agreements**

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the District's investment policy. The District had no debt proceeds investments as of June 30, 2011.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As of fiscal year-end, the weighted average maturity of the investments contained in the Los Angeles County Investment Pool is approximately twenty (20) months.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment:

	<u>Maturity Date</u>	<u>Carrying Amount</u>	<u>Fair Value Adjustment *</u>	<u>Fair Value</u>
Los Angeles County Investment Pool - Unrestricted	20 months average	<u>\$ 551,987</u>	<u>\$ 234</u>	<u>\$ 552,221 *</u>
Los Angeles County Investment Pool - Restricted	20 months average	<u>\$ 2,004,507</u>	<u>\$ 848</u>	<u>\$ 2,005,355 *</u>

\* Due to the immaterial nature of the Fair Value Adjustment, the Los Angeles County Investment Pool balances are reflected at their carrying amount in the financial statements.

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Los Angeles County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization and is considered "exempt from disclosure" under GASB No. 40.

**Concentration of Credit Risk**

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code.

Investments in any one issuer that represent 5% or more of total investments by reporting unit are as follows:  
As of June 30, 2011, \$2,556,494 of the cash and investments are held in the form of a nonnegotiable unrated investment in the Los Angeles County Investment Pool.

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.



**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

None of the District's deposits with financial institutions were in excess of federal depository insurance limits.

The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools such as the Los Angeles County Investment Pool.

**Investment in Los Angeles County Investment Pool**

The District is a voluntary participant in the Los Angeles County Investment Pool that is regulated by the California Government Code under the oversight of the Treasurer of the County of Los Angeles. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by Los Angeles County for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by Los Angeles County, which are recorded on an amortized cost basis.

**Derivative Investments**

The District did not directly enter into any derivative investments.

**NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The excess of expenditures over appropriations as of June 30, 2011 were as follows:

Mobile Emissions Program (AB 2766)	
Services and Supplies	\$ 79,766
 Carl Moyer Program	
Services and Supplies	\$ 242,733

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 4 – ACCOUNTS RECEIVABLE**

Receivables at June 30, 2011, consist of the following:

	<u>General Fund</u>	<u>Special Revenue</u>	<u>Totals</u>
State Government:			
Department of Motor Vehicles	\$ 225,287	\$ 597,386	\$ 822,673
Total State	<u>225,287</u>	<u>597,386</u>	<u>822,673</u>
Local Government:			
Local Sources	27,016	0	27,016
Interest Receivable	<u>1,030</u>	<u>3,874</u>	<u>4,904</u>
Total Local	<u>28,046</u>	<u>3,874</u>	<u>31,920</u>
Total Accounts Receivable	<u>\$ 253,333</u>	<u>\$ 601,260</u>	<u>\$ 854,593</u>

**NOTE 5 – CAPITAL ASSETS**

The changes in fixed assets for the year ended June 30, 2011, are shown below:

	<u>Balance July 01, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated	\$ 0	\$ 0	\$ 0	\$ 0
Total capital assets not being depreciated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital Assets being depreciated:				
Improvements	0	15,875	0	15,875
Equipment	<u>723,707</u>	<u>103,273</u>	<u>32,485</u>	<u>794,495</u>
Total capital assets being depreciated	<u>723,707</u>	<u>119,148</u>	<u>32,485</u>	<u>810,370</u>
<u>Less accumulated depreciation for:</u>				
Equipment	<u>(205,074)</u>	<u>(19,403)</u>	<u>(32,485)</u>	<u>(191,992)</u>
Total accumulated depreciation	<u>(205,074)</u>	<u>(19,403)</u>	<u>(32,485)</u>	<u>(191,992)</u>
Total capital assets being depreciated, net	<u>518,633</u>	<u>99,745</u>	<u>0</u>	<u>618,378</u>
Governmental activities capital assets, net	<u>\$ 518,633</u>	<u>\$ 99,745</u>	<u>\$ 0</u>	<u>\$ 618,378</u>
Depreciation was charged to functions as follows:				
Public Safety - Other	<u>\$ 19,403</u>			
Total Depreciation Expense	<u>\$ 19,403</u>			

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 6 – INTERFUND TRANSACTIONS**

Due From / Due To Other Funds – All interfund balances are expected to be repaid within the next fiscal year and are considered ordinary in nature. The composition of interfund balances as of June 30, 2011, is as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 39,162	\$ 135,172
Mobile Emissions Program AB 2766	60,077	20,179
Mobile Emissions Program AB 923	75,096	0
Carl Moyer Program	<u>20,178</u>	<u>39,162</u>
Totals	<u>\$ 194,513</u>	<u>\$ 194,513</u>

Transfers In / Transfers Out – Individual fund interfund transfers for the fiscal year ended June 30, 2011, were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>	<u>Purpose</u>
Mobile Emissions Fund (AB2766)	General Fund	\$ 410,553	To transfer mobile emissions program revenue to the mobile emissions fund.
Mobile Emissions Fund (AB 923)	General Fund	<u>513,191</u>	To transfer mobile emissions program revenue to the mobile emissions fund.
	Total	<u>\$ 923,744</u>	

**NOTE 7 – SHORT-TERM DEBT ACTIVITY**

The District had no short-term debt issued or outstanding during the fiscal year ended June 30, 2011.

**NOTE 8 – LONG-TERM DEBT OBLIGATIONS**

The District had no long-term debt issued or outstanding during the fiscal year ended June 30, 2011.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 9 – LEASE OBLIGATIONS**

**A. Operating Leases**

The District has entered into operating leases for facilities and equipment as of June 30, 2011 that require payments extending for a period longer than twelve months. Future payments as of June 30, 2011 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2012	\$ 50,607
2013	44,627
2014	43,431
2015	43,431
2016	<u>0</u>
Total	<u>\$ 182,096</u>

**B. Capital Leases**

As of June 30, 2011, the District has not entered into any lease agreements where title will pass upon the expiration of the lease.

**NOTE 10 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year ended June 30, 2011, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for any of the past three fiscal years.

The District is a participant in the Special District Risk Management Authority (SDRMA) formed for the purpose of providing insurance to its member agencies.

At June 30, 2011, SDRMA maintained general liability, automobile liability, property liability, and public officials' liability insurance coverage of \$5,000,000 per occurrence with \$500,000 self-insurance retention covered by a purchased policy. Inasmuch as SDRMA is acting as a broker obtaining low cost policies for its members, joint venture disclosure is not applicable.

**NOTE 11 – EMPLOYEE RETIREMENT SYSTEMS**

During the year ended June 30, 2011, the District had no employees and made no retirement plan contributions.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 12 – DEFERRED REVENUE**

- A. The State of California Air Resources Board established the Carl Moyer Memorial Air Quality Standards Attainment Program to provide incentives for participating entities to undertake reduced-emission heavy-duty engine projects. The District applied for the Program and received funding under this program as follows:

	Round of Funding					
	IX	X	XI	XII	XIII	Total
<u>Grant Funding</u>						
Amount Received to Date	\$ 495,274	\$ 302,673	\$ 471,064	\$ 427,990	\$ 427,990	\$ 2,124,991
Amount Expended to Date	(495,274)	(282,673)	(72,896)	0	0	(850,843)
Total Grant Deferred	0	20,000	398,168	427,990	427,990	1,274,148
<u>Administrative Support Funding</u>						
Amount Received to Date	55,031	55,784	52,340	47,555	47,555	258,265
Amount Expended to Date	(55,031)	(55,784)	(14,356)	(10,611)	(10,611)	(146,393)
Total Administrative Deferred	0	0	37,984	36,944	36,944	111,872
Total Amount Deferred as of June 30, 2010	\$ 0	\$ 20,000	\$ 436,152	\$ 464,934	\$ 464,934	\$ 1,386,020

As of June 30, 2011, the District had identified and committed funds per grant requirements, but had not yet expended all of the program revenues. Since the District would be required to repay program revenue not used, the criteria for recognizing this program revenue as income is not met until District expenditures are actually made. The Carl Moyer Program income will be reflected as deferred revenue until the expenditures are made in subsequent periods.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

A. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

B. Litigation

The District may become involved in several matters of litigation that remain pending as June 30, 2011. The outcomes of these matters of litigation are uncertain as of June 30, 2011.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2011**

**NOTE 13 – COMMITMENTS AND CONTINGENCIES (Continued)**

**C. State and Federal Allowances, Awards and Grants**

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

**NOTE 14 – OTHER REQUIRED FUND DISCLOSURES**

- A. Summary disclosures of changes in long-term debt obligations and summary disclosure of debt service requirements to maturity for all types of outstanding debt: This requirement is met by Note 8.
- B. Summary disclosures of changes in property, plant and equipment by major asset class: This requirement is met by Note 5.
- C. Summary disclosure of District interfund receivables/payables and interfund transfers in/out: This requirement is met by Note 6.

**NOTE 15 – SUBSEQUENT EVENTS**

The District had no reportable subsequent events as of the date of the auditor's report, which is the date the financial statements were available to be issued.

**NOTE 16 – COMPLIANCE AND ACCOUNTABILITY**

**A. Finance-Related Legal and Contractual Provisions.**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

**B. Deficit Fund Balance or Fund Net Assets of Individual Funds**

Following are funds having deficit fund balances or fund net assets at year-end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**REQUIRED SUPPLEMENTARY INFORMATION**

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Application and Permit Fees	\$ 421,290	\$ 421,290	\$ 460,236	\$ 38,946
AB 2766 and Other Program Revenues	1,602,700	1,602,700	1,549,251	(53,449)
Grants and Donations	100,000	100,000	122,740	22,740
Fines	10,000	10,000	8,951	(1,049)
Investment Earnings	20,000	20,000	9,963	(10,037)
Miscellaneous	0	0	40,016	40,016
Total Revenues	2,153,990	2,153,990	2,191,157	37,167
EXPENDITURES				
Public Safety:				
Services and Supplies	1,235,485	1,235,485	1,220,676	14,809
Contributions to Other Participants	0	0	0	0
Capital Outlay:				
Improvements and Equipment	176,500	176,500	119,148	57,352
Total Expenditures	1,411,985	1,411,985	1,339,824	72,161
Excess (Deficiency) of Revenues Over (Under) Expenditures	742,005	742,005	851,333	109,328
OTHER FINANCING SOURCES (USES)				
Operating Transfers Out	(941,463)	(941,463)	(923,744)	(17,719)
Total Other Financing Sources (Uses)	(941,463)	(941,463)	(923,744)	(17,719)
Net Change in Fund Balances	(199,458)	(199,458)	(72,411)	127,047
Fund Balance - Beginning of Year	591,788	591,788	591,788	0
Fund Balance - End of Year	\$ 392,330	\$ 392,330	\$ 519,377	\$ 127,047

The accompanying notes are an integral part of these statements.



**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE - MOBILE EMISSIONS PROGRAM (AB2766)**  
**FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Investment Earnings	\$ 0	\$ 0	\$ 19,514	\$ 19,514
Total Revenues	0	0	19,514	19,514
EXPENDITURES				
Public Safety Services and Supplies	425,000	425,000	504,766	(79,766)
Total Expenditures	425,000	425,000	504,766	(79,766)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(425,000)	(425,000)	(485,252)	(60,252)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	409,563	409,563	410,553	990
Total Other Financing Sources (Uses)	409,563	409,563	410,553	990
Net Change in Fund Balances	(15,437)	(15,437)	(74,699)	(59,262)
Fund Balance - Beginning of Year	1,537,755	1,537,755	1,537,755	0
Fund Balance - End of Year	\$ 1,522,318	\$ 1,522,318	\$ 1,463,056	\$ (59,262)

The accompanying notes are an integral part of these statements.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT  
BUDGETARY COMPARISON SCHEDULE - MOBILE EMISSIONS PROGRAM (AB923)  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Total Revenues	\$ 0	\$ 0	\$ 2,768	\$ 2,768
EXPENDITURES				
Public Safety Services and Supplies	500,000	500,000	412,095	87,905
Total Expenditures	500,000	500,000	412,095	87,905
Excess (Deficiency) of Revenues Over (Under) Expenditures	(500,000)	(500,000)	(409,327)	(85,137)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	531,900	531,900	513,191	(18,709)
Total Other Financing Sources (Uses)	531,900	531,900	513,191	(18,709)
Net Change in Fund Balances	31,900	31,900	103,864	(103,846)
Fund Balance - Beginning of Year	412,719	412,719	412,719	0
Fund Balance - End of Year	\$ 444,619	\$ 444,619	\$ 516,583	\$ 71,964

The accompanying notes are an integral part of these statements.

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT  
BUDGETARY COMPARISON SCHEDULE - CARL MOYER PROGRAM  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Grants and Donations	\$ 511,828	\$ 511,828	\$ 745,277	\$ 233,449
Investment Earnings	0	0	2,829	2,829
Total Revenues	511,828	511,828	748,106	236,278
EXPENDITURES				
Public Safety:				
Services and Supplies	511,828	511,828	754,561	(242,733)
Contributions to Other Participants	0	0	0	0
Total Expenditures	511,828	511,828	754,561	(242,733)
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	(6,455)	(6,455)
Net Change in Fund Balances	0	0	(6,455)	(6,455)
Fund Balance - Beginning of Year	59,332	59,332	59,332	0
Fund Balance - End of Year	\$ 59,332	\$ 59,332	\$ 52,877	\$ (6,455)

The accompanying notes are an integral part of these statements.

## **OTHER SUPPLEMENTARY INFORMATION**

**ANTELOPE VALLEY AIR QUALITY MANAGEMENT DISTRICT  
DISTRICT SUMMARY, GOVERNING BOARD AND PERSONNEL  
JUNE 30, 2011**

**DISTRICT SUMMARY**

The Antelope Valley Air Quality Management District was created pursuant to Health and Safety Code Section 40106 and became operational on July 1, 1997. The District has the primary responsibility for the control of air pollution from all sources other than vehicles within its jurisdiction. The Antelope Valley Air Quality Management District contracted with the Mojave Desert Air Quality Management District to provide air pollution control services for all aspects of administration and operation.

**GOVERNMENT**

The Antelope Valley Air Quality Management District Governing Board consists of seven members:

- Two members of the City of Lancaster City Council as appointed by the City Council
- Two members of the City of Palmdale City Council as appointed by the City Council
- Two persons appointed by the Los Angeles County Board of Supervisors who represent a majority of the population of the District
- One public member appointed by the members above

As of June 30, 2011, the Governing Board consisted of the following:

**GOVERNING BOARD**

<u>MEMBER</u>	<u>OFFICE</u>	<u>REPRESENTED AREA</u>
Mike Dispenza	Chair	City of Palmdale
Sherry Marquez	Vice Chair	City of Lancaster
Marvin Crist	Member	City of Lancaster
James Ledford	Member	City of Palmdale
Vern Lawson	Member	County District Supervisor Appointment
Ron Hawkins	Member	County District Supervisor Appointment
Ken McCoy	Member	Public Member

**CONTRACTED SERVICES**

Eldon Heaston - Executive Director / Air Pollution Control Officer

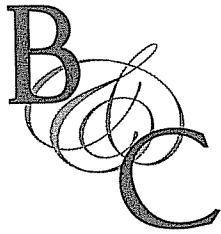
Bret Banks - Operations Manager

Crystal Bates - Deputy Clerk of the Board

Karen K. Nowak - District Counsel

Jean Bracy - Director of Administrative Services

**OTHER INDEPENDENT AUDITOR'S REPORT**



# BURKEY COX EVANS & BRADFORD

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LAURA A. BRADFORD, CPA

TERESA YATES, CPA

TERRY L. SNEDIGAR, EA

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Governing Board  
Antelope Valley Air Quality Management District  
Lancaster, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Antelope Valley Air Quality Management District, as of and for the year ended June 30, 2011, which collectively comprise the Antelope Valley Air Quality Management District's basic financial statements and have issued our report thereon dated November 1, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Antelope Valley Air Quality Management District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Antelope Valley Air Quality Management District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Antelope Valley Air Quality Management District's internal control over financial reporting.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Antelope Valley Air Quality Management District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**BURKEY COX  
EVANS & BRADFORD**

ACCOUNTANCY CORPORATION

Antelope Valley Air Quality Management District

Page 2

We noted certain matters that we reported to management of Antelope Valley Air Quality Management District, in a separate letter dated November 1, 2011.

This report is intended solely for the information and use of management, others within the organization, and Board of Directors. However, this report is a matter of public record and its distribution is not limited.

*Burkey & Cox, CPAs*  
BURKEY COX EVANS & BRADFORD  
Certified Public Accountants

Palmdale, California  
November 1, 2011